

REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL PROVINCIAL LEGISLATURE AND THE COUNCIL ON IMPENDLE MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Impendle Municipality set out on pages XX to XX, which comprise the statement of financial position as at 30 June 2012, the statement of financial performance, statement of changes in net assets and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting Officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Local Government: Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and Division of Revenue Act of South Africa, 2011 (Act No. 6 of 2011) (DoRA), and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-General's responsibility

3. My responsibility is to express an opinion on the financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the municipality's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Impendle Municipality as at 30 June 2012, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material under spending of conditional grants

8. As disclosed in note 14, the municipality has materially under spent on conditional grants received during the year by 43,9% in the amount of R16,7 million.

Unaudited supplementary schedules

9. The supplementary information set out on pages XX to XX does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Additional matter

10. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Material inconsistencies in other information included in the annual report

11. I have not obtained the other information included in the annual report for my review and as such have not been able to identify any material inconsistencies with the financial statements.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

12. In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

13. The annual performance report included in the annual report was not presented in time for audit and consequently my findings below are limited to the procedures performed on the strategic planning and performance management documents.
14. The information was assessed to determine whether performance indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant, as required by the *National Treasury Framework for managing programme performance information (FMPPI)*.
15. The material finding is as follows:

Usefulness of information

Measurability

16. The *FMPPI* requires that performance targets be specific in clearly identifying the nature and required level of performance. The targets were not specific in clearly identifying the nature and the required level of performance. This was due to the fact that management was aware of the requirements of the *FMPPI* but chose not to apply the principles contained in the *FMPPI*.

Compliance with laws and regulations

17. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in

key applicable laws and regulations as set out in the *General Notice* issued in terms of the PAA are as follows:

Annual financial statements

18. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of property, plant and equipment, investment property, provisions, other income, contracted services and general expenses identified by the auditors were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

National Environmental Management: Waste Act

19. The municipality operated their waste disposal site without a waste management license or permit, in contravention of section 20(b) of the National Environmental Management: Waste Act of South Africa, 2008 (Act No. 59 of 2008) and section 20(1) of the Environmental Conservation Act of South Africa, 1989 (Act No. 73 of 1989).

Human resource management

20. Overtime worked by employees exceeded their working hours, which was in contravention of section 10 of the Basic Conditions of Employment Act of South Africa, 1997 (Act No. 75 of 1997).

Internal control

21. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

22. The accounting officer did not exercise adequate oversight over financial and performance reporting and compliance as well as internal control. In this regard, the accounting officer did not periodically assess whether staff members had essential skills and knowledge to support the achievement of credible reporting and desired control objectives.

Financial and performance management

23. Adequate processes were not in place to communicate timely and relevant information to those charged with governance, in that monthly reporting was not effective. This is evidenced by material corrections in the financial statements, as well as compliance and performance findings.

Governance

24. The audit committee did not adequately assess the effectiveness of controls and responses to risks, as evidenced by material corrections in the financial statements and compliance findings.

Auditor-General
Pietermaritzburg

30 November 2012



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence